
Urban Myth: Retirees Need \$300,000 for Health Care

By Editor Test Tue, Nov 3, 2009

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You’ve probably heard or read, with dismay, that the average Boomer couple should add an extra \$300,000 to their “retirement number” to help cover their health care costs in retirement.

But this is an urban myth—or at least an exaggeration—according to Luis Fleites, vice president, retirement markets research, at the Financial Research Corporation in Boston. The much-quoted estimate from the Employee Benefit Research Institute was originally worded “up to” \$300,000, he said.

A more accurate estimate is that, excluding potential nursing home costs, median health care spending will be about \$4,500 a year, for people ages 65 to 74, Fleites told RIJ, with an estimated 21% of that group spending over \$7,500 a year.

“We’re not trying to dispel the idea that health expenses will be an important factor, and even \$4,500 is not an insignificant amount,” he said. “But the idea that you need three hundred grand for health care or you’re not going to make it isn’t necessarily true.”

The \$300,000 figure is one of 10 “myths” that the FRC dispels in a new report, [“Making Sense of Investor Needs in the Retirement Income Market.”](#) The report is based on a May 2009 online survey of over 1,500 U.S. consumers ages of 45 and 74 with at least \$100,000 in investable assets.

The report’s biggest takeaway? “One of our higher-level findings is that retirement is a personalized and customized event,” Fleites said. “People who look the same from the outside are very different in terms of their preparation for retirement. It depends on whether they have a pension, or have dependents. The conventional approach to retirement doesn’t apply anymore. It’s going to be customized going forward.”

Here are the ten purported myths, and their alternative explanations, from the new FRC report:

Myth: Retirement is an event.

Reality: Retirement is a complex process that, for the majority of boomers, is likely to unfold gradually over several years.

Myth: Boomers will retire earlier and live longer than prior generations, requiring very substantial savings to live comfortably.

Reality: Yes, many boomers (but certainly not all) have a longer life expectancy than prior generations, but the trend to retire earlier seems to be reversing itself.

Myth: Pension plans have disappeared, leaving boomers with nothing but Social Security and their savings.

Reality: While many pension plans have been terminated or frozen, many plans still exist.

Myth: Boomers are spendthrifts who have saved little, taken on large mortgages, and run up a substantial amount of consumer debt.

Reality: While this is true for some boomers, the PowerBoomers in our study typically have a considerable amount of home equity and low consumer debt.

Myth: Boomers have not been planners and have not faced retirement realities.

Reality: The majority of PowerBoomers have a retirement plan, even if it is informal.

Myth: Boomers are woefully unprepared financially for retirement.

Reality: This is certainly true of some boomers, and is true of many more boomers if we view retirement in its traditional sense. However, many of the PowerBoomers in our study are not planning on a traditional retirement.

Myth: Boomers are the Sandwich Generation, providing financial support to both parents and children.

Reality: It's definitely true that boomers are providing financial support for adult children but the percentage of boomers providing financial support to parents is low, and likely to decline.

Myth: Boomers are at the tipping point, about to move from accumulation to decumulation.

Reality: Actually, the boomer generation spans a 19-year period, with the youngest boomers turning 45 in 2009. Plus, like prior generations, boomers will likely look primarily to retirement income solutions that do not draw down substantial amounts of principal, at least in the early years of retirement.

Myth: Boomers who work in retirement will do so primarily because they need the money.

Reality: Yes, money and benefits are likely to be strong motivators, but other reasons like staying active, healthy, and socially connected will play an important role.

Myth: Out-of-pocket health care costs could drain \$295,000 from a typical retirement nestegg, according to a widely quoted EBRI study.

Reality: What people often omit when quoting this very thorough EBRI study is the phrase "as much as", which precedes the \$295,000 figure. In our study, we found the mean out-of-pocket health care costs for respondents 65 to 74 years old were around \$4,500.